

**2017 APAAC Annual Prosecutor Conference**  
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**Arizona Grand Resort & Spa**  
**Phoenix, Arizona**



**WELCOME TO THE WORLD OF STORE VALUE  
CARDS, TERRORISM, ORGANIZED CRIME,  
TAX FRAUD, IDENTITY THEFT, & ASSET  
FORFEITURE**

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**Money Laundering in the 21<sup>st</sup> Century  
OR  
Welcome to the world of stored value cards,  
terrorism, organized crime, tax fraud, identity  
theft, and asset forfeiture.**

**APAAC June 23, 2017**

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**I. What's new in Money Laundering?**

- "Prepaid cards is the Currency of Criminals,"  
IRS Commissioner, John Koskinen, 60 Minutes  
Interview CBS News
- "Dread Pirate Roberts" is Ross William  
Ulbricht & he knows: "Silk Road" vs. Darknet;
- Credit and Debit Card counterfeiters know;
- "Homey" knows:

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6/14/2017

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### Prepaid Access Devices/Stored Value Cards

- Branded by Visa, Master Card, American Express, Discover, PayPal. And soon, China Union Pay, JCB and Amazon
- Referred to as "Open Loop" cards, these are global cash cards
- Works like other debit cards to buy goods and services or to get cash
- One time use, or can be re-loaded at over 150,000 merchant locations in the U.S. using cash, bank account or another payment card.

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### Open Loop Cards

- Funds can be transferred to other prepaid cards anywhere in the world in a matter of seconds using internet applications or mobile phones. Why would these be sold at discount?
- Generic or embossed with a name on card.




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### Closed Loop or Gift Cards

- Branded by Retailers for use only at their stores;
- Referred to as "Closed Loop" cards;
- Acts like cash to buy goods and services at specific merchants;
- Purchased for a specific amount and can only be re-loaded by the merchant;




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### Market for Gift Cards

- Funds cannot be transferred to other gift cards unless lost or stolen;
- Are generally not personalized;
- Resold on the internet for other cards or to cash out a card's value at discount;
- Pawn shops;



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### Cash and Prepaid Debit Cards

- Mercator estimated over \$540B was loaded on prepaid cards in the U.S. in 2015. Adding new brands like Amazon, JCB and China Union Pay will drive the total global load to nearly \$1T by 2016.
- Sex and Human Traffickers, Cartels and Terrorist have found prepaid debit cards a simple way to launder their money into digitized currency with impunity.
- According to the Treasury Inspector General for Tax Administration, over \$21B could be laundered using stolen identity and illicit tax returns.
- Many Law Enforcement entities are seeing significant reductions in cash seizures. Texas for example has seen a 57% decrease comparing 2013 to 2014, as criminals move from cash to prepaid access cards.



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### Organized Retail Theft

- Shoplifters take merchandise;
- Return merchandise without receipt;
- Provided a gift card;
- Driver's licenses used to limit returns are also modified;
- Gift Cards sold for a steep discount;
- This industry promotes theft, fraud, and counterfeiting. Not needed!

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### Counterfeit Cards

- Starbucks example:
  - International crook (where?) discovered the algorithm used to create 16 digit card numbers;
  - Manufactured millions of these cards and sold them via the internet for 30% of face value;
  - Purchases then re-sold the cards for a substantial profit but for substantially less than face value;
  - Justification was that the cards were real because they worked. Victim never acknowledged \$ lost.

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### Hack Cred/Deb Card in 6 Seconds University of Newcastle Theory

- Hackers can get valid debit & credit card numbers, but they do not know the expiration date or security code;
- Use a computer program to fire the card number at a vast number of websites;
- In seconds hackers get a "hit";
- Guessing software establishes the card expiration date and security code;

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### Data Verification From Commerce

- Banks typically issue cards valid for 60 months;
- Guessing expiration date takes at most 60 tries;
- The CVV 3 -digit security code takes fewer than 1,000 attempts;
- Spread out over 1,000 websites, one will be verified within a couple of seconds.
- The Hacker has all the data needed to hack your account.

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### Counterfeit Credit/Debit Cards

- Hackers gain access to corporate finance data;
- Sell identification info and card numbers via the internet for a fee;
- Purchasers create fake cards with the ID info on the front matching them but with your numbers on the magnetic stripe on the back;
- Most often used to purchase gift cards or merchandise to be returned for gift cards.

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### Highly-publicized breaches in recent years

- EBay: 145 million records;
- Home Depot: 109 million records;
- JP Morgan Chase: 83 million records;
- Michael's Stores: 3 million records;
- Staples: 1.16 million records;
- Domino's Pizza: 650,000 records;
- Target: 40 million CC#; 70 million addresses;
- Nieman Marcus: 350,000 cardholders.

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Barclays: US responsible for 47% of world's card fraud but 24% of worldwide card volume.



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### Scottsdale Case 1/15/15

- International wire transfers to purchase stolen identification and card numbers;
- Set up card manufacturing system in dining room of apartment & could include photos;
- Used "Hookers" to purchase gift cards;
- Found 6,800 + cards, 9 months to collect \$57,800 in value from cards;
- No victim information to provide restitution.

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### Card cloning 101



- Novice and sophisticated criminals can quickly create counterfeit payment cards
  - Easily accessible skimming and recoding devices can copy stolen personal identity and financial information on to any magnetic stripe
  - Buy credit, debit and prepaid card information on the dark web for pennies an account
  - "Table Top" embossing machines can alter the face of the card to match information contained on the magnetic stripe
  - If the card has a magnetic stripe, it could contain credit, debit or prepaid card information

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### A bus pass, hotel key card, coffee card?

Hotel room keys and other cards with magnetic stripes can be repurposed as prepaid cards.

Criminals transfer encoded information from valid cards to blank pieces of plastic using readily available equipment. For about \$130.00, you can buy a reader/writer on E-bay to skim cards.

If the card has a magnetic stripe, it could contain prepaid card information.




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### Liquidation of Gift Cards

Cartel human trafficking mules accept closed loop gift cards for payment instead of cash.

Closed loop prepaid cards are sold for cash in pawn shops at 80-90% of the face value.

With over 2,200 retail locations in Mexico, buying a Wal-Mart closed loop card is fast and easy. Home Depot, Target, Best Buy and Amazon cards are among the most popular brands for criminals.

### • Card Purchasing Businesses



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### International Movement

- Value on cards can be moved in minutes if the 16 digit code has been recorded;
- Can be by computer or by "Smart Phone;"
- Hard to trace the movement of funds;
- Phones are disposable and cannot be easily traced;
- Maximum space on card: \$99,999,999.99;
- Record seizure \$480,000,000 one card?

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### The Cloned Credit, debit, prepaid and Gift Card Smuggling Epidemic

- Last year-
- 32 million Americans had their credit cards stolen;
- 12.7 million individuals had their identities stolen;
- \$16B was laundered due to identity theft fraud;
- Over \$40B loaded each year on prepaid cards from illegal and illicit activities;
- Cash seizures are down as criminals move proceeds electronically, including prepaid cash and debit cards.

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## How much is "a lot?"

"A billion here, a billion there, and pretty soon you are talking about a lot of money." Senator Everett Dirksen years ago about the Federal Budget.

Now it applies to the value on these cards. By the end of 2016 a Trillion dollars may be involved in financial transactions funded by stored value cards.

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## The criminal market is exploding

	Criminal Activity	Open or Closed loop	Access to Cash	Global Processing	Global Issuance
1.	Narcotics Sales	Open	ATM	Yes	Yes
2.	Sex Trafficking	Open & Closed	ATM, Internet, Store	Yes No	Yes No
3.	Human Smuggling	Open & Closed	ATM, Internet, Store	Yes No	Yes No
4.	Money Laundering	Open	ATM	Yes	Yes
5.	ID Theft/Tax Fraud	Open	ATM	Yes	Yes
6.	Internet Gambling	Open	ATM	Yes	Yes
7.	Terrorist Funding	Open	ATM, Internet, store	Yes	Yes

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## Total U.S. Load on Open-Loop and Closed-Loop Prepaid Cards, 2003–2016




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### Darknet is the Competition

- Must use an encrypted browser only found by TOR or "The Onion Router."
- Developed by Military & released in 2004;
- 90% of TOR use is criminal;
- Proxy service to conceal source & location;
- TOR indexing is minimal & ineffective;
- Some cites require invitation code or payment;

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### Darknet

- TOR Addresses change frequently;
- System is incredibly slow due to the effort to conceal locations & bouncing communications through servers all over;
- Gibberish is used to conceal sites;
- Silk Road started Feb 2011: 70,000 US users/day 600,000 users World Wide at Max;
- Alpha Bay & others replaced Silk Road;

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### Darknet

- August 2015: 362,000 US users/day 2,000,000 users/day worldwide;
- Sample Index of criminal cites for sale:
  - Fraud 22,000; Drugs & Chemicals 117,367;
  - Counterfeit Items 4,468;
  - Digital Products 10,476; Jewels & Gold 927;
  - Weapons 1859; Carded Items 2,337;
  - Software & Malware 1597.

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### Bitcoin

- Virtual Currency started in 2009 at [www.blockchain.com](http://www.blockchain.com);
- Uses "wallets" to store value; who controls the wallet is difficult to prove;
- Fees for use of "Escrow funds" is 1 to 3%;
- Integrity of system is built on trust verified by "Data Miners" using mathematical algorithms;
- Transactions are delayed for verification;

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### Bitcoin

- Value is dependent on use/market;
- Evaluation by customers satisfaction is a basis for trust similar to 5 star ratings;
- No regulation; verification is based upon unknown data miners who get a fee;
- They search for evidence of legitimacy in part based upon the entity who sold Bitcoins; search for background info of participants.

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### Bitcoin

- Exchanges & entities selling products may disappear with value; They're criminals!!!;
- TAILS system on a thumb drive can use TOR and leave no record;
- Weak point is exchange points where cash is exchanged for Bitcoins;
- Ransom Ware, fee is paid in Bitcoin;
- Nearly perfect money laundering tool.

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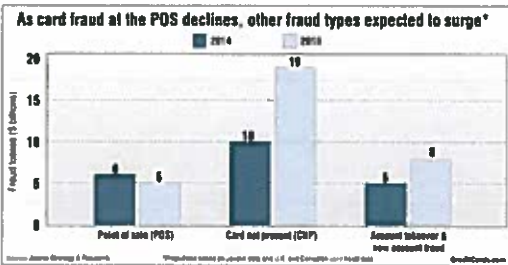
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Total value of card-not-present transactions is expected to grow from \$9 B in 2013 to nearly \$19 B in 2018, as fraud at the point of sale shrinks



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## II. International Terrorism

- November 13, 2015: Bataclan Theater, Paris, France and a few weeks later similar attacks in Belgium:
  - Funded with 3,200 gift cards, unknown to either government;
  - Funds loaded on the cards through international transfers on a Sat Phone near Abu Dhabi;
  - No monitoring system.

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### France targets prepaid debit cards in fight against terror finance

France, announcing fresh moves against terrorist financing, said on Nov. 23 it would target prepaid debit cards which it said were used in the recent Paris attacks.



AP/23 - Agence France Press

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## Cash and Prepaid Debit Cards

"We will regulate more strictly the use of prepaid cards which were used in the November 13 attacks, in order to make it harder to remain anonymous," Finance Minister Michel Sapin told a news conference. Currently, prepaid credit cards can be recharged without identity checks so long as they don't exceed 2,500 euros over one year.

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- Details of stricter debit card rules, which are part of a wider set of measures to combat the financing of terror, are to be given in early 2016, the finance ministry said. "There are new means of payment which have been created which should be on our radar," said Bruno Dalles, head of the ministry's Tracfin financing intelligence unit.
- "I am thinking particularly of prepaid cards, especially if they are delivered in nearby foreign countries and used in France, for example to book hotel rooms," he told the news conference.

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## Riverside, California, shootings

- It has been reported the co-conspirator of the couple purchased the guns and ammo;
- The reports say the guns and ammo were purchased with gift cards;
- Hard to confirm details because the purchaser is charged with felonies and will be on trial;
- No system exists to confirm whether the money came from outside U.S.

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### III. Used to Facilitate Organized Criminal Enterprise and Conceal Assets

16,000 gift cards – \$2 Million cash



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### Two hours and 1,600 fake credit cards later: \$13 million is gone

by Ivan Krutavets [www.cnn.com](http://www.cnn.com) May 23, 2016, 11:14 AM ET  
Is this the 'Ocean's Eleven' of cybercrime?

A South African bank became a victim of a bank heist 10,000 miles away, after a group of criminals stole \$13 million out of cash machines on another continent using fake South African credit cards.

The thieves used around 1,600 forged cards to withdraw the money from 1,400 individual cash machines across Japan, according to local media, including the Kyodo agency.

The cards were allegedly created using data stolen from the South African Standard Bank Group ([www.standardbank.co.za](http://www.standardbank.co.za)), which has an apparent connection with Japan.

It took the group just over two hours to steal the money from the Standard Bank, withdrawing the maximum amount of 100,000 yen (\$913) in 14,000 individual transactions, the media reported.

The bank estimated its total loss at 300 million South African rand (\$20 million), and called the heist a "sophisticated, coordinated fraud incident."

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**BOLO From Maryland  
State Police and  
Washington DC Police  
Department**



The two pictured subjects from Estonia were arrested September 1, 2016. Both subjects were arrested in the processes of using re-encoded debit cards with PIN numbers and more than 50 cards in possession. Subjects have been in the country since August 16, 2016 and stated that they had gone to more than 30 banks in VA, MD and District of Columbia. Subjects have been here in the past year as well and had gone to more than 50 banks that time. Any information please call.

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**4 Arrested, Guns and Thousands of Blank Credit Cards Seized in Brooklyn, New York: NYPD**

Four people were arrested, and guns and thousands of blank credit cards were seized at an apartment in Brooklyn, police say. A search warrant was executed at a 997 Dekalb Avenue apartment in Bedford-Stuyvesant in a case involving fake bank cards and forgery machines. Seven handguns, ammunition and weapons parts were taken by police, as was forgery equipment, including 2,433 blank credit cards, two credit card embosser machines, and three credit card skimmers. Laptops, cell phones and cash were also seized, according to police. Police arrested Joshua Crosland, 51, Kymberlea Durant, 46, Taquila Durant, 18, and Lewis Durant, 48. All four suspects face weapons charges. Crosland, Kymberlea Durant and Lewis Durant also face charges of criminal possession of a forgery device.

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#### Heflin, Alabama-



During a traffic stop on I-20, a Heflin Police Officer detected the odor of marijuana from inside the vehicle he stopped. During a probable cause search of the vehicle, the officer located 40 gift cards in the center console and numerous receipts on the rear floor of the vehicle, showing repetitive reloading of the gift cards from various stolen credit card numbers. The Heflin officer used ERAD to catalog and conduct a balance inquiry on the 40 gift cards. A total of \$19,600 USC was identified and recovered from the cards. Investigators discovered a short time later that the suspect from the traffic stop was part of a Haitian-based criminal organization using Citibank credit lines to steal credit card numbers. Citibank reported losses of more than \$10 million due to the money laundering activity of this one group, alone.

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#### Records

- Most on a single card: \$480,000,000 seized as part of a drug/money laundering investigation in a foreign currency;
- Most Cards: 84 pounds of cards, estimated to be about 101,000 cards;
- Advised there has been a larger seizure but details have yet to be shared.

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#### IV. Raid of IRS Refunds

- Hackers get Personal ID & related financial info;
- File Electronic Tax Return early with refund to a Greendot card in your name at your address;
- Just prior to date refund is transmitted to card they change your address to a drop where thousands of cards are sent;
- Cards are picked up, money moved, and you have to convince IRS you did not file return.

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#### Refunds

- Money very nearly cannot be traced without ERAD to follow movement;
- \$2-4 Billion lost this year;
- Taxpayers refunds are substantially delayed;
- Money not available to fund government;
- IRS has not been issued ERAD technology;
- Computer system to monitor addresses where refunds are sent?

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#### V. U.S System For Tracking Monetary Instruments.

- Monetary Instrument defined 31 U.S.C. § 5312(a)(3).
- 31 U.S.C. § 5313 CTRs. More than \$10,000 in coins, currency or other monetary instruments;
- 31 U.S.C. § 5316 CMIRs transports a monetary instrument of more than \$10,000 into or out of U.S. or receives within the U.S. a monetary instrument of more than \$10,000...; Form 8300;
- What happens if a monetary instrument does not include money on a card?

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### We have no regulations regarding cards.

- According to BSA 31 U.S.C. 5311, "Treasury shall issue regulations ... regarding the sale, issuance, redemption or international transport of stored value, including stored value cards" no later than February 16, 2010.
- Blocked by Card Companies, for false and unjustified reasons associated with profit earned from criminal enterprise. Never submitted to Federal Register.
- Similar to the conflict between Arizona and Western Union over funding of alien smuggling.

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### Western Union

- The use of Western Union wires to facilitate human smuggling in the sex trade industry finally caused W. U. to examine what it could do to aid law enforcement investigations from data mining of its own records. Particularly in Europe, W.U. has been recognized for its pioneering work reducing sexual slavery. This discovery was essentially forced upon Western Union by Arizona.
- Stored value cards may be the next opportunity for law enforcement to force an industry to evaluate its association with criminal enterprise.
- W.U. recognized it did not profit from an association with revenue generated from foreign criminal enterprise. Will the issuers of stored value cards be next?

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### Card Seizures

What have you seized when you have the card? Plastic;

Determine the available funds using a "balance inquiry" transaction;

Secure funds for up to 30 days using a "hold" transaction: Same Commercial Transaction used to purchase online;

Obtain a Court order or Seizure Warrant to remove value;

Transfer funds to a designated law enforcement bank account using a "seize" transaction

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### Where Will You Find Cards?

- Same places you will find drugs and cash.
- Will dog alert to cards?
  - Don't know if cards hold odor but if the cards are in a container which is associated with drugs the alert is valid and the cards suspect.
  - Number of cards is relevant. Who travels with dozens of cards?
  - Must act quickly to capture value.

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### VI. Reading Data on Mag Stripe

- 100% of Courts considering this issue found:
  - No reasonable expectation of privacy in data;
  - Data is owned by the issuer of card not holder;
  - Scanning Card is not a Search;
  - Process is Constitutional.
- The only dissenting opinion related to who controls the data on the card.

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### Cases

*U.S. v. Medina*, 2009 WL 3669636, affirmed in part and reversed in part on other grounds sub nom, *U.S. v. Duarte*, 2009 WL 3669537 (S.D.Fla.2009);  
*U.S. v. Alabi*, 943 F.Supp.2d 1201 (D.N.M. 2013) Affirmed on other grounds at 597 Fed.Appx. 991 (10<sup>th</sup> Cir. 2015);  
*U.S. v. Benjamin Briere De L'Isle*, 2014 WL 5431349 (D.Neb. 2014); affirmed at 825 F. 3d 426 (8<sup>th</sup> Cir. 2016);  
*U.S. v. Bah*, 794 Fed 3d 617 (6<sup>th</sup> Cir. 2015);  
*U.S. v. Turner*, 839 F. 3d 429; (5<sup>th</sup> Cir. 2016).

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Every Court to consider this issue agrees:

- After analysis of the five cases addressing the scan of cards in the custody of law enforcement, it is clear no search is involved.
- There exists no legitimate privacy expectation with regard to the data contained on the card.
- An inspection of the card will reveal either the same information on the face of the card or evidence of a criminal purpose for the card.
- Like an alert by a canine, the scan reveals nothing else and is not a search.

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## VII. Civil Asset Forfeiture

- (1) ERAD: Freeze vs Seize before the funds move;
- (2) Transaction history of cards and real time search warrant – trafficking kids;
- (3) Recovery of Value for Victims of Crimes regardless of the capture of perpetrators;
- (4) Historical Basis for Federal Seizures in Admiralty Law due to use against pirates;

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- (5) Compare to other civil recovery theories;
- (6) Anti-Law Enforcement/Anti-Forfeiture entities with links to George Soros and the Koch Brothers have combined efforts to cripple the ability of law enforcement to pursue proceeds of criminal activity absent conviction;

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(7) Examples of cases which would have failed under this regime:

- *Ken Lay*: ENRON;
- Rafael Aguilar Guajado;
- Luis Guillermo Angel Restrepo: Chief Pilot for Pablo Escobar and founder of Los Pepes: *U.S. v. Basler Turbo 67 DC-3 Aircraft*, 906 F.Supp 1332 (D. Ariz, 1995)
- *Randy Habib to Degen v. U.S.*, 517 U.S. 820 (1996);
- Fugitive Disentitlement Doctrine: 28 U.S.C. § 2466.

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Generally important to all forfeiture cases

- *U.S. v. Arvizu*, 122 S.Ct. 744 (2002).
  - Officer observed a long number of factors which lead him to believe the van was engaged in trafficking;
  - Trial judge found those factors significant and refused to suppress the evidence discovered in stop;
  - 9<sup>th</sup> Cir. In de novo review, substituted its judgment for that of trial judge; individually considered each factor and dismissed each as failing to establish PC by itself;
  - Lacking probable cause, the 9<sup>th</sup> Cir. Suppressed evidence & ordered defendant released;
- S.Ct. reversed divide & conquer approach of the 9<sup>th</sup> Cir. Must consider totality of circumstances.

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**FLORIDA v. HARRIS**

133 S.Ct. 1050 (2013) Unanimous Court

- Facts of the traffic stop as reported by the S.Ct.:
  - First stop based upon expired license plate;
  - As officer approached driver's-side door saw Δ was "visibly nervous," unable to sit still, shaking, breathing rapidly, and an open beer can;
  - Asked Δ for consent to search truck and Δ refused;
  - Officer retrieved his dog and conducted a "free air sniff" around the vehicle driven by Δ; dog alerted at driver's door handle;
  - Subsequent search found meth components.
  - Δ admitted he cooked and used meth on a regular basis.
  - Second stop was for a broken brake light.
  - Dog again alerted to door handle, but nothing found in truck.
- No need for "catch and release," based on observations.

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**FLORIDA v. HARRIS**

Δ attacked credibility of dog on the basis of inadequate field performance logs, claiming dog alerted when nothing was present, i.e. dog was wrong if nothing found.

Supreme Court disagreed:

- "The better measure of a dog's reliability thus comes away from the field, in controlled testing environments."
- "A detection dog recognizes an odor, not a drug, and should alert whenever the scent is present, even if the substance is gone."
- "... the mere chance that the substance might no longer be at the location does not matter; a well-trained dog's alert establishes a fair probability—all that is required for probable cause—that either drugs or evidence of a drug crime will be found."
- Quotes *The Scientific Working Group on Dog and Orthogonal Detector Guidelines*, "best practices."

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**FLORIDA v. HARRIS**

- What will Δ use from this opinion?
  - Δ may challenge evidence of a dog's reliability;
  - Cross-examine the officer;
  - Present fact or expert witnesses;
    - Attack certification or training programs as too lax or utilizing faulty methods;
    - Whether programs simulated sufficiently diverse environments;
    - Whether programs use enough blind testing;
    - Attack the regular training record and logs.
  - Holding: "Because training records established Aldo's reliability in detecting drugs and Harris failed to undermine that showing, we agree with the trial court that Wheatley had probable cause to search Harris's truck."

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**Summary**

Prepaid Cards are quickly becoming the preferred method of currency for criminal activity and money laundering;

Card information can be easily encoded on to any magnetic stripe making detection and analysis difficult;

Criminals can transfer funds from one card to another in a matter of seconds;

Card Reader provides Law Enforcement the tools required to quickly identify, hold and seize prepaid funds at the point of arrest;

Thank you to ERAD, Inc. for providing much of the intellectual property summarized in the presentation related to cards.

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### Proposed Solutions

- The Goldwater Institute; Institute for Justice; George Soros; Koch Brothers; ACLU; Crooks & Criminal Defense Bar all agree the solution is to require a criminal conviction before law enforcement is allowed to pursue seizure/ forfeiture actions. AZ Legislature & Gov Agree
- L.E. solution is to get the readers as close to the front lines as possible and recover stolen value to protect victims.

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